

**YANGON UNIVERSITY OF ECONOMICS
DEPARTMENT OF COMMERCE**

**INTERNAL CONTROL ON REDUCTION OF FRAUDULENCE IN
SMEs**

**SU MYINT MHO
MACT II**

NOVEMBER, 2019

**INTERNAL CONTROL ON REDUCTION OF FRAUDULENCE IN
SMEs**

This thesis is submitted to the Board of Examiners in Partial Fulfillment of the
Requirements for the Degree of Master of Accounting (M.Act)

Supervised by:

Submitted by:

**Daw Khin Nwe Ohn
Associate Professor
Department of Commerce
Yangon University of Economics**

**Ma Su Myint Mho
M.Act (II) -4
Master of Accounting
Yangon University of Economics**

November, 2019

ABSTRACT

According to the Small and Medium Enterprises Survey Myanmar (2015), more than 90% of the Myanmar economy is composed of private companies, particularly small and medium enterprises (SMEs). Small and medium enterprises represent the major parts of the nation's economy throughout the world. In Myanmar, SMEs represent the largest proportion of all types of enterprises, providing plenty opportunities of employment. SMEs without having internal control can face with the fraudulent activities. This study aims to identify the internal control system in SMEs and examine internal control system affect on reduction of fraudulence of SMEs. Internal control system includes risk assessment, control activities, and monitoring. And then reduction of fraudulence included revenue cycle fraud, account receivable fraud, expenditure fraud, and financial statement fraud. This study used primary and secondary data. The primary data were collected with questionnaires to 120 responsible employees from some businesses of Shwe Pyi Thar Industrial Zone and secondary data was collected from previous research paper, internet websites, record data and company profiles. This study used descriptive statistic, multiple regression statistic. This study found that control activities, one of the components of internal control has the significant effect on reduction of fraudulence in SMEs. Moreover, the study suggested that SMEs should have an effective internal control system, and it still needs more improvement and more attention from management to be better ones.

ACKNOWLEDGEMENTS

First of all, I would like to express my gratitude to Prof. Dr. Tin Win, Rector of the Yangon University of Economics, for his contribution and encouragement to the participants of the MAct Programme.

My heartfelt thanks go to Prof. Dr. Ni Lar Myint Htoo, Pro-Rector, Yangon University of Economics, for her supports to have an opportunity to study.

I would like to express sincere appreciation to Prof. Dr. Soe Thu, Head of Department of Commerce, Yangon University of Economics for her monitoring, encouraging and guidance in carrying out this paper.

My deepest appreciation goes to my supervisor, Daw Khin Nwe Ohn, Associate Professor, Department of Commerce, Yangon University of Economics for her support and help to make my paper effectively and proficient supervision, kind guidance, suggestions, patience, sharing knowledge and valuable time for the accomplishment for my thesis.

Furthermore, I would like to thank to Shwe Pyi Thar Industrial Zone Office for their assistance to me for the necessary information.

Finally, I must express my very profound gratitude to my parents for providing me with unfailing support and continuous encouragement throughout my years of study and through the survey process and writing this thesis, This accomplishment would not have been possible without them.

TABLE OF CONTENTS

		Page
ABSTRACT		i
ACKNOWLEDGEMENTS		ii
TABLE OF CONTENTS		iii
LIST OF TABLES		v
LIST OF FIGURES		vi
CHAPTER	TITLE	
1	INTRODUCTION	1
	1.1 Rationale of the study	2
	1.2 Objectives of the Study	3
	1.3 Scope and Method of the Study	3
	1.4 Organization of the Study	3
2	THEORETICAL BACKGROUND OF THE STUDY	4
	2.1 Definition of Internal Control	4
	2.2 Importance of Internal Control	6
	2.3 Types of Internal Control	7
	2.4 Components of Internal Control	8
	2.5 Definition of Fraud	12
	2.6 Types of Fraud	13
	2.7 Theoretical Foundation	15
	2.8 Previous Study	16
	2.9 Conceptual Framework of the Study	18
3	BACKGROUND OF SMEs In MYANMAR	20
	3.1 SMEs in Myanmar	20
	3.2 Internal Control System in SMEs	21
	3.3 Financial Support for SMEs	22
	3.4 Opportunities and Challenges of SMEs	22
	3.5 Advantages and Disadvantages of SMEs	22
4	RESEARCH METHODOLOGY	25
	4.1 Research Design	25

4.2	Demographic Information	26
4.3	Cronbach's Alpha Reliability Test	29
4.4	Analyzing the Internal Control System	30
4.5	Multiple Regression Model of Internal Control on Reduction of Fraudulence in SMEs	37
5	CONCLUSIONS	39
5.1	Findings and Discussions	39
5.2	Recommendation of the Study	40
5.3	Need for Further Study	42
5.4	Conclusion	42
	REFERENCES	
	APPENDICES	

LIST OF TABLES

Table No.	Description	Page
4.1.	Gender of Respondents	26
4.2.	Level of Age	26
4.3.	Respondents' Education Level	27
4.4.	Respondents' Working Experience	28
4.5.	Respondents' Monthly Income	28
4.6.	Department Sector of Respondents	29
4.7.	Reliability Test from Respondent Responses on scale Items	30
4.8.	Risk Assessment Activities that reduce fraud	31
4.9.	Control Activities that reduce fraud	33
4.10.	Monitoring Activities reducing fraud	35
4.11.	Reduction of Fraudulence	37
4.12.	Coefficient of determination	38
4.13.	Analysis of ANOVA Variance Table	38
4.14.	Summary Result Data	39

LIST OF FIGURES

Figure No.	Description	Page
2.1.	Conceptual Framework of the Previous Study	18
2.2.	Conceptual Framework of the Study	19

CHAPTER 1

INTRODUCTION

Small and medium enterprise (SMEs) is now growing rapidly and gaining a strong position in today's economy growth. It had emerged as an important area of research especially when it comes to financial and business management. In many countries, the SMEs are essential to the economy as they are considered to the backbone of industrial development in the country. However, the increasing rate of fraud destroyed the growth of SMEs. To help in preventing and detecting fraud, the internal control plays a vital role which is affected by the management, the board of directors that is designed to minimize risk exposure to an acceptable level given the company's objectives. Small businesses should care about internal controls to prevent their assets and reduce the risk of fraud. Additionally, the growing awareness of fraud has enabled investors and other companies to focus on stronger internal controls even on smaller private companies. Internal control refers to an organization's objectives, goals and missions. They are also a set of policies and procedures adopted by an entity of an organization in the appropriate manner to avoid waste, theft and misuse of organization's transactions that are processed in the appropriate manner to avoid waste, theft and misuse of organization resources. And then , internal control are processes planed and influenced by those in charge of supremacy, administration, and any other private to offer a sound guarantee of the accomplishment of a company's aims regarding consistency of the financial reporting, efficiency and success of operations and fulfillment of all the rules and regulations (Menon, 2008). Hopwood, Leiner & Young (2012) noted that internal control is process oriented that focus more on business processes rather than on the outcomes of the processes. The control environment, risk assessment and management, control activities, information and communication, and monitoring are the main components of internal control. The system of internal control provides organizations to achieve performance and organization goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations. Thus, this research aims to determine the relationship of internal control (control activities, risk assessment and monitoring) in reduction of fraud. Since there are minimal studies conducted on the roles of internal control in fraud reduction among SMEs, this research would help arising the

awareness from management level of the SMEs and to have more knowledge on the internal control of SMEs. Thus, this research is based on the relationship of roles of internal control in reduction of fraud among SMEs in Myanmar to determine the important implications of internal control towards SMEs activities.

1.1 Rationale of the study

Small and medium enterprise in Myanmar is now growing fast and gaining more and more position in the economy of Myanmar. According to Charlton " SMEs in Myanmar Survey", 99.4% of all businesses in Myanmar are classified as small and medium enterprises. Due to the rapid growth of SMEs and lack of studies conducted in Myanmar, it is important to attract the attention of researchers to investigate on the implementation of internal control system in SME that can prevent and detect fraud at the early stage as this type of businesses might provide major income for the country in future. And then, small businesses should also care about internal control system to protect their assets (i.e. momentary and non-momentary items) and reduce the risk of fraud. The lack of managerial skills and implementation of internal control system may lead to the failure of the businesses. It's not easy to achieve a good internal control, cause of capital and investments limitation. It takes many costs and resources to implement the internal control system. An internal control system helps organizations ensure that operating objectives, financial objectives, and compliance objectives are met and combined. Hence, internal control system can be seen as the fundamental for supporting the achievement of an organization's objectives and creating, enhancing, and protecting stakeholder value. However, most of SMEs in Myanmar can't fit with rules and regulation, and has not enough internal control. They have made the services from audit firms for tax advisory. Moreover, many SMEs try to ignore the importance of internal control system in their businesses because the lack of compliance and enforcement of the government, especially internal audit department. This situation can give the employees an opportunity to be involved in such fraudulent activities that may be serious and harmful to the organization. Implementation of internal control system is essential for SMEs to identify whether the business can achieve its objectives and reliable financial reporting. If there is no excellent internal control system, it can face with fraud and waste. Therefore, this research will help the organizations to achieve success by using the internal control activities within the organizations.

1.2 Objectives of the Study

The aims of this study are:

- 1) To identify internal control systems in SMEs, and
- 2) To examine internal control systems affect on the reduction of fraudulence of SMEs

1.3 Scope and Method of the Study

This study is applied descriptive research method. In this thesis, both primary and secondary data are used. As primary data, the data are collected from the Shwe Pyi Thar Industrial Zone where it is comprised of 117 SMEs. The sample size is based on the 17% of the total industries in the Shwe Pyi Thar Industrial Zone. Therefore, the sample size of the study is 20 SMEs in Shwe Pyi Thar Industrial Zone. The questionnaires are constructed with 5-point likert scales. Secondary data are obtained from the previous research papers, internet websites, record data and company profiles.

1.4 Organization of the Study

This thesis was organized by five chapters. Chapter one is introduction chapter that shows the rationale of the study, objectives of the study, scope and method of the study and organization of the paper. Chapter two describes the theoretical background and conceptual framework of the study and the profile of SMEs in Shwe Pyi Thar Industrial Zone is described in chapter three. Chapter four is analyzing of the internal checks and accounting control and chapter five is the last chapter in which conclusion, finding, suggestions and recommendations and needs for further research are presented.

CHAPTER 2

THEORETICAL BACKGROUND OF THE STUDY

This chapter is composed of definition of internal control, importance, types, and components of internal control, and types of fraud and based theory. Additionally, other previous studies which are acquired as supporting of this study and conceptual frameworks are mentioned in this chapter.

2.1 Definition of Internal Control

For many years, internal control is considered as an important factor to a successful operation within not only the long-term run but also daily run of a business, because of a key responsibility of a business manager to control operations (Horngen 2012). Clearly, a sufficient internal control system which included right policies and procedures will able to assist and empower the company to achieve its specific objectives.

Internal control means different things to different people (The Committee of Sponsoring Organizations of the Treadway Commission (COSO) 1994). Therefore, internal control is defined in many definitions since it impacts on the plenty of aspects of entities in various ways and creates some confusions amongst business owners, regulations and other stakeholders. Harrison argued and showed his opinion concluded in the definition about internal control which is as “a system of procedures implemented by company management. It is designed to follow company policy, promote operational efficiency, ensure accurate, reliable accounting records and comply with legal requirements.” (Harrison 2011).

Internal control is a process of improvement within a company. In order to achieve that improvement, the controls is strictly necessary to be under periodically-reviewed process or ongoing supervision to ensure company’s continuous efficient operation.

The second key element points out that internal control essentially needs involvement of leading people within the organization. Therefore, management is always required a plenty of discussions to build an effective control system involving with internal control design, implementation and maintenance.

Third key demonstrates internal controls are designed to provide reasonable assurance. It means that internal controls possibly cannot be established to provide an absolute assurance system for all risk and frauds which are able to happen in an organization. Internal controls exists itself with some inherent limitations. A sound and well-designed internal control system can only reduce risk and human error or mistakes, not eliminate it. In fact, an ideal and adequate internal control system is the one that can provide the company a reasonable assurance in a few crucial areas with helping company diminish material error, fraud, etc., but not one hundred percent certainty of helping company achieve its objectives and mission.

Internal control is a system that is designed to regulate an activity and is used as a guideline in carrying out operational activities of an organization. Organizations generally use internal control system to control the operational activities in order to prevent misuse of the organization's resources. Steve Albrecht in *Fraud Examination* (2003: 90) argues that: "Good Installing Internal Controls is the most Widely Recognized way to Deter fraud is with good system of controls. The Institute of Internal Auditor' standard on fraud, for example, states the following." Steve Albrecht in *Fraud Examination* (2003: 91) Good control procedures (activities) are the policies and practices providing physical control of assets, proper authorizations, segregation of duties, independent checks, and proper documentation (Physical control, proper authorization, and segregation of duties are controls for preventing fraud, whereas independent checks, documents, and records facilitate early the detection.). Silverstoon and Sheetz (2007: 68) states that "Internal controls are part of the protective system against fraud. They are designed to prevent irregularities and ensure early detection. "Internal control is influenced by various levels of the organization as pro-posed by Picket (2010: 626)" internal control is affected by people at every level of an organization."

The definition of internal control is proposed by many authors generally sourced from the definition made by COSO (The Committee of Sponsoring Organization of Tredway Commission) as a private sector initiative that was formed in 1985. In 1992, COSO established with the main objective to identify factors that cause darkening financial report and make recommendations to reduce the incidence has published internal Control Framework which includes common definitions compiled for internal control, internal control standards and criteria that can be used by organizations to assess the organization's control system.

On May 14, 2013, COSO published Internal Control Integrated Framework (ICIF) as revised version in 1992. The revised internal control framework is expected to help improve the implementation of internal control in every organization, although further adjustments needed to align the internal controls throughout the world and to help organizations achieve better management risk and improvement of the overall performance of organizations exist. In this new edition, COSO (2013), internal control is defined as “Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.”

1. Based on the above definition, it is understood that the internal control is a process that is influenced by the board of directors, management and other parties that are designed to provide reasonable assurance in achieving the goals related to operating activities, reporting and compliance.
2. Internal control is intended to achieve the objectives in one or more categories, which include operating, reporting and obedience.
3. Internal control is a process that consists of activities and tasks are running and ways to re-solve it.
4. Internal control is affected by people and not just related to the policies and procedures manuals, systems and forms, but explained about the people and what they are doing at all levels of the entity to affect internal control.
5. Internal control provides reasonable assurance, not absolute assurance to senior management and the board of directors of the organization.
6. Internal control is able to adapt to the organizational structure, is flexible in its application to the entire organization or for branch, division, unit operations or specific business processes.

2.2 Importance of Internal Control

Internal control is a very important part of the management systems of entities and their ability to manage risk. It is a basic factor to support and realize the achievement of the objectives of the unit and for the creation, establishment and protection of the values of its owners. A developed system of internal control allows the entity to obtain and collect as many opportunities and avoid market pressures creating her the opportunity to save money and time, to encourage the creation and

preservation of entity values. Strong Internal Control System gives the opportunity to the entity to take more risks, making it more competitive in the market where it operates. An effective risk management and an effective Internal Control System should be a key part of good governance at every level of an organization and throughout its operations (IFAC (IFAC) 2011).

Internal control is a tool by which are directed, monitored and measured resources of these SMEs. It plays an important role in the prevention and detection of fraud and physical protection; moreover it leads to high operational efficiency of the business. Therefore if there is a strong system of internal controls to monitor and run businesses, the prospect of bankruptcy reduces (Sampson, 1999). Harrison (2011) shows his opinion on internal control that it is a system of procedures implemented by management of the company. It is designed to follow company policies, promote operational efficiency for data reliable accounting and in accordance with legal requirements. An important element of internal controls are effective financial controls, involving conducting proper accounting records. This is because they help to ensure that the entity does not necessarily expose to financial risks that can be avoided, and that the financial information used within the entity and published one is reliable. These financial controls also help to ensure the protection of assets and to prevent and detect fraud.

2.3 Types of Internal Control

According to Tommie and Aaron (2010, p.137 & 138), internal control can be classified into three different categories, namely (i) Directive Control, (ii) Preventative Control, and (iii) Detective Control.

- (i) **Directive Control-** are those established for company's desired outcome with a clear direction and strong drive to achieve its objectives and goals. This type of internal control is related to high level of directions with positive arrangements to encourage employees as well as to guide them. It may involve laws and regulations, policies and procedures, and even training programs.

- (ii) **Preventative Control-** are designed for preventing undesirable conditions or violations that can be lead to regulations and frauds. In other word, it avoids risks and harms. Preventive control is usually

applied within the daily work of employees in accordance with their differences in functions and responsibilities, such as the division of responsibilities and obligations; mutual supervision; checking the validity and the accuracy of work.

- (iii) **Detective Control**-the purpose of this kind of control is to identify or recognize errors which may already occurred, were out of prevention. Experts stated that detective control is to some extent cost-consuming than other method, yet it is still referred as a necessary control tool as it can measure the preventive control's effectiveness. Auditing is one of the bright example for this kind of control usage. Besides, there are other examples for detective controls such as supervisor review, internal checks, account review and reconciliations, etc.

2.4 Components of Internal Control

Internal control consists of interrelated components which are considered as criteria for determining and achieving an effective system of internal control. These components are made in accordance with the management style and philosophy, making the differences from one entity to another, and are inseparable with the management process. Some tools or guidelines help business to assess and improve their system of internal control through these related components, which will be analyzed in more details below.

2.4.1 Risk Assessment

Every business entity cannot avoid the impacts of risks. Risks come from both inside and outside of the enterprise. The higher the risk, the greater is the profit that can be achieved. However, there is no component in order to reduce all risks to zero. Risk assessment can be seen as the basis for the determination and analysis risks in related to the achievement of entities' business objectives, financial statement reliability and obedience with laws. Therefore, risk assessment can be considered as a basic foundation for how to determine risk management of that entities. In order to have right decisions for the company's business, management must first identify its opportunities and objectives, then define the risks for those opportunities and objectives, and finally design the processes of internal control to manage the

identified risks. A good enterprise risk management (ERM) practices of the company is very important before the company sets an effective internal control process.

Content of Risk Assessment involves four principles-

- 1. Specific relevant objectives-** setting up of business objectives is not a critical component of internal control, although this activity is a necessary or an important basis for risk assessment. An event is considered as a risk to business if it affects or even threatens to goals of the enterprise. Therefore, the first target of risk assessment is to set business objectives, then managers can identify risks in relation to goals and take necessary actions to manage them later in their ability.
- 2. Identity Risks-** Risk identification is performed through the consideration of the factors outside and inside the enterprise which can directly affect the operation of the business.
- 3. Risk Analyze-** It is the consideration of importance and possibility of risks which helps managers deal with risks, manage and mitigate their effects. Risk analysis method is very diverse since many types of risks are difficult to quantify. Risk analysis method consists of three basic stages, (1) assess and measure the damage from risk, (2) assess the probability of risk, and (3) find solution to deal with risks.
- 4. Access fraud risk –** Potential fraud may create dangers for entities' objectives; hence fraud needs to be in the account of high consideration. Points of focus for this section are included attention of various types of fraud which can occur such as fraudulent financial reporting, asset misappropriation, corruption, etc.; access fraud's incentive and opportunities; last but not least, access motivation as well as rationalization as mentioned in the fraud triangle model.

2.4.2 Control Activities

In COSO Internal Control – Framework (1994, p.49), control activities are the policies and procedures to ensure that management directives are carried out. These policies and procedures aim to support other necessary activities to minimize the business risk and enable help objectives be implemented seriously, efficiently across the whole enterprise. Once managers is responsible for identifying risks, they are also in the primary responsibility for designing,

implementing and monitoring of control activities to prevent or reduce the identified risks.

Types of Control Activities are-

1. **Top Level Reviews** – Review is a comparison between actual performances with data from different sources. To review, managers are able to determine and handle the difference of interest. The purpose of this procedure is to detect abnormal fluctuations, quickly learn the root causes and propose corrective solutions in time. Some analytical methods of reviewed are such as checking data periodically in detail or collating data from actual inventory and accounting records, etc. (COSO 1994, p.50)
2. **Segregation of Duties** – Segregation of responsibility or duties is referred as assigning tasks to different members among the organization. It means that at the same time one person should take duties at different works in place to reduce errors and frauds. For instance, salesperson would be responsible for selling product, but he would not have authority to change products' price. The purpose of the division of responsibilities is to create mutual control during operation, quickly detect errors and reduce fraud in the implementation process. However, this control activity may be disabled due to collusion among employees. Therefore, managers should examine and evaluate regularly the control activities and relationship among employees who work together to perform the task. (COSO 1994, p.51)
3. **Information Processing** – To obtain reliable accounting information, managers must perform multiple control actions to check the authenticity, completeness and the approval of transactions. (COSO 1994, p.52)
4. **Physical Controls** – The assets of a business may include cash, goods, equipment, inventories and information. Asset protection is very important since it prevents the loss, corruption, waste or improperly-used purpose. The rules and procedures for protecting the assets may comprise of restricting access the assets, using devices to enhance the security, checking Inventory of assets periodically, and preservation of documents and records in safe. (COSO 1994, p.52)

2.4.3 Monitoring

Monitoring is the last part of internal control and it can be defined as the process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two" (COSO 1994, p.69). Monitoring plays an important role in the internal control system and helps internal control maintain its effectiveness over different periods. These activities are conducted by those who have authorities and responsibilities, regarding to review the establishment and implementation of control procedures. Monitoring activities are practiced in the enterprises with the form of two ways: ongoing monitoring and separate evaluation.

1. Ongoing monitoring

Ongoing monitoring activities take place during the operation of business by managers and employees. Regular monitoring is often applied to the important elements of internal control. This type of monitoring aims to assess the performance of routine activities and thereby to review the internal control system's efficiency. The evaluation criteria of ongoing monitoring include:

- Gather information within and outside the enterprise to clarify issues arising from internal or other internal information through the organization of training sessions, seminars or other forms of encounter to provide feedback to the manager
- Compare the actual data with bookkeeping data.
- Internal audit and independent auditors – focus on the recommendations for improvement of internal control from independent auditors and internal auditors.

2. Separate evaluation

Separate evaluation is recommended that this activity should be carried out periodically through internal auditing function and independent auditors. Thanks to this, detection of weaknesses in the system could be recognized timely and thereby make improvement measures for those weaknesses. Scope and frequency of monitoring depends on the level of risks as well as importance of the controls in minimizing the risks. The higher risk's ability is, the more frequently monitoring will be carried out. Besides, monitoring range depends on the

operational objectives, financial reporting in compliance. (COSO 1994, p. 71) The evaluation of the internal control system itself is a process. The person being in charge of assessment must be knowledgeable in all internal control's activities, and also know how to determine the best way for the system. There are many methods and assessment tools for evaluation such as checklists, questionnaires, flowcharts, or comparisons to other similar businesses in the same industry. (COSO 1994, p.72)

2.5 Definition of Fraud

According to Rodney and Mario (2014, p.1), no entity is immune from fraud or in the other work, entities cannot avoid totally from fraud. It effects all types of organizations although it will be the large or small of size and sector, and public or private and so on.

From a global study conducted by Association of Certified Fraud Examiner (ACFE) in 2014, the result was indicated that a business entity, every year, loses approximately 5% of its revenue to fraud. Additionally, the study also showed that six of ten companies in the survey was impacted by fraud in recent years. (Association of Certified Fraud Examiner 2014, p.4)

Fraud is a broad legal concept and there are various definitions of fraud. Those definitions, to some extent, had covered common areas about fraud but each of them is slightly different. Fraud definition was mentioned in the study of ACFE in correspondence with occupational term which is defined as "the uses of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources and assets". In other words, occupational fraud means a person defrauds his/her employing association; therefore fraud is not an unintentionally mistake but with purposes, for instance, an incorrect accounting estimate, the solicitation of a cost to an improper account or even withdraw cash into pocket. (Report to the nations on occupational fraud and abuse, ACFE, 2014 p.6)

There is no business that can avoid fraud. Fraud is defined as any action deliberately and dishonestly committed to obtain an advantage, which causes a loss to another party. International Auditing Standards (ISAs) defined fraud is an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage.

2.6 Types of Fraud

Fraud is a major challenges and risk that are faced by all organizations. Although fraud is not one that all organizations would like to deal with, in reality, it is one that every business has experienced. In every year, there are many uncountable losses because of fraud happened in the business which will widely affect the employees, stakeholders, and the performance of the business. Some serious frauds may lead the company to insolvency, or even bankruptcy. According to Ernst & Young, “Fraud the Unmanaged Risk” 8th Global Survey 2003, it suggests that in around 85% of cases the most costly fraud is done by employees. Frauds caused by business themselves are also increasing and these relate to fraud perpetrated by the company's owners, management and others who are charged with monitoring and supervision. The chances of fraudulent activities may increase cause of the lack of excellent control and culture of honesty and ethical behavior. The followings are some types of frauds.

(1) Revenue Cycle Fraud

The most common fraud that take place in the business deals with revenue such as cash and checks. Basic cash skimming, advanced sales skimming, checks swapped for cash and the lapping of accounts receivable are the examples of revenue cycle fraud. Basic cash skimming occurs when the employee doesn't record the sale and take the money. Advanced sales skimming is that an employee collects the money from customer but fails in recording the sale and gives the customer a forged receipt. The situation that an employee takes the cash from the cash drawer and replaces it with phony checks using false customer identification information so that the employer will attribute the bad check to a dishonest customer can be defined as checks swapped for cash. The fraud lapping of accounts receivable involves the stealing of incoming payments by the accounts receivable clerk and also hiding the theft by manipulating the customer account records. The clerk uses the second payment to cover the first customer's stolen payment.

(2) Account Receivable Fraud

A dishonest employee causes fraudulent credit approvals by granting credit accounts to fictitious customers. The employee then later will use the

account to purchase a product without paying and the credit granted will be a kickback to the employees. Improper credits and improper write-offs are similar; they are carrying out by the employee to friend's accounts to either give unauthorized credit or write-off the debt of the accounts which these actions are illegal in law.

(3) Expenditure Cycle Fraud

Expenditure cycle fraud involves improper purchases and payments, payroll fraud, misappropriation of petty cash and theft of inventory and other assets. Improper purchases and payments take place when the employee allows the type of purchase or payment is not consistent with the company's policy to cheat the company. Common payroll fraud involves improper hiring which the employees hire their own friends or relatives who don't have proper training or hire phantom employees to cheat the salary, improper changes to employee personnel files for pay raises which the payroll clerk to give their friends pay raises and improper work-related reporting which the employees report overtime working changes that they don't work. Misappropriation of petty cash takes place only when employees claim for miscellaneous business-related expenses without giving proper receipt. Theft of inventory and other assets, another expenditure cycle fraud means that the employee uses the company assets for personal usage or own benefits.

(4) Financial Statement Fraud

Financial statement fraud is any undisclosed intentional or grossly negligent information in any financial statement. According to Hopwood, Leiner & Young(2012), the financial statement frauds involve improper revenue recognition, overstatement of assets, understatement of expenses or liabilities, misappropriation of assets, inappropriate disclosure and other miscellaneous techniques, with overstating revenues and overstating assets being the most common type of financial statement fraud.

2.7 Theoretical Foundation

The study focuses on applying the fraud triangle theory to reduce the frauds in SMEs.

2.7.1 Fraud Triangle Theory

Fraud is a crime that is more costly than most people realize. There are some of certain factors that allow most individuals to commit these crimes. To fight fraud, one must not only realize that it occurs, but also why and how it occurs. Over the years, the American criminologist, Donald Cressey developed a theory – known as the Fraud Triangle – that explains the factors that lead to fraud and other unethical behavior. There are three factors that make up fraud triangle theory.

- (1) Pressure :** Pressure refers to the factors that lead to unethical behavior. It can be either financial or non-financial pressures. The most common factor that lead to an entity to engage in an evil action is financial factor. Types of pressure comprises personal, environment stress, and external pressure. Pressure involves money problems, gambling debts, alcohol or drug addiction, overwhelming medical bills. Moreover, greed is also a part of pressure, and needs to be associated with injustice.
- (2) Opportunity :** Opportunity is the second necessary element of fraud to occur. Opportunity becomes because of ineffective control or governance system that encourages individuals to commit organizational fraud. In accounting field, it can be defined as internal control weakness. The concept of perceived opportunity suggests that people will take advantage of circumstances available to them (Kelly and Hartley, 2010). The lower the chance of risk can be, the more the chance of fraud take place. Negligence of employees' policies and lack of disciplines may lead to opportunity that make fraudulent activities in the organization. If there is no adequate information, internal control, and regular audit report, the opportunity that lead fraud may increase.
- (3) Rationalization :** It is the last element of fraud triangle theory. Rationalization is mindset of a person about to commit the unethical act. Rationalization is a justification of fraudulent behavior because of an employee's lack of personal integrity, or moral reasoning (Rae and Subramanian, 2008). Cause of difficulties to read the mind of the fraud perpetrators, rationalization is not easy to notify.

Fraud triangle theory provides a useful framework for the organization to analyze and avoid fraudulent activities. All of elements can create a chance of fraud for individuals in an organization. By preventing these factors, the business can avoid the fraudulent activities.

2.8 Previous Study

There are several studies regarding to reduce frauds in SMEs. This section presents a review of some related previous studies.

Lettie, Svincki and Shi (2010) designed a framework as an interconnected set of ideas about how a particular fact is related to its parts. They categorized internal control processes including authorization and approvals, segregation of duties, arithmetic accounting and control, physical control, and supervision and monitoring into risk reduction such as fraud reduction, misappropriation decline, safeguarding assets, and reliability of financial information. A positive and statistically significant relationship between internal control processes being, (authorisation and approvals, segregation of duties, physical control, arithmetic accounting and control, supervision and monitoring) and risk reduction in SMEs was noted. This study concluded that authorization approvals and accounting control were the two main central influences of risk reduction that had a positive impact in SMEs.

Mohd Danial Afiq Bin Khamar Tazilaha , Norhusnaida Binti Che Hussain introduced a relationship whether internal control components had an influence upon on reduction of fraud in SMEs. Components of internal control in SMEs, involving control environment, risk assessment, control activities, information and communication, and monitoring, were used as independent variables, while fraud prevention and detection was used as dependent variables. According to the research, he found that all components of internal control need to work together to achieve an effective and strong internal control system. However, the research showed that SMEs should maintain basic internal control system in their business, mainly in monitoring and managing their activities.

Mappanyuki et al. (2012) examined that there was a positive and significant effect of internal control implementation which affects either partially or simultaneously on the prevention of procurement fraud. He introduced the effect of internal control and anti-fraud awareness on prevention fraud. The result of the study showed that the internal control had a significant and positive effect on the fraud

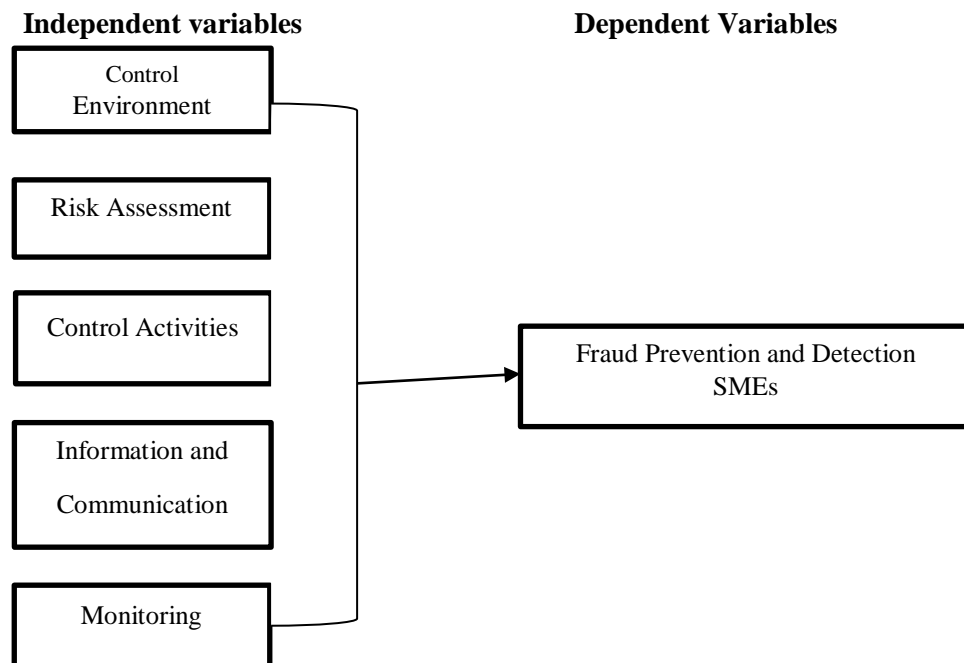
prevention. It is consistent with that done by Mappanyuki et al. (2012) stating that there is a positive and significant effect of internal control implementation either partially or simultaneously on the fraud prevention. This can support the theory by Albrecht et al. (2012) stating that the implementation of good internal control can prevent fraud that has been widely done. Hermiyetti (2010) stated that the internal controls are good, then the occurrence of fraud and waste can be detected and addressed at an early stage so that losses can be avoided. This study aims at to know what components of internal control system adopted by SMEs in Shwe Pyi Thar Industrial Zone and how these of internal control have an influence on the reduction of fraudulence in SMEs.

2.8.1 Conceptual Framework of The Previous Study

The previous research conceptual framework conceptually portrays the research variables as shown in figure 2.1.

The framework in Figure 2.1 showed the hypothesized links between internal control; control environment, risk assessment, control activities, information and communication, monitoring and reduction of fraudulence. Reduction of fraudulence in SMEs was the outcome variable for this study.

Figure 2.1: Conceptual Framework of the Previous Study

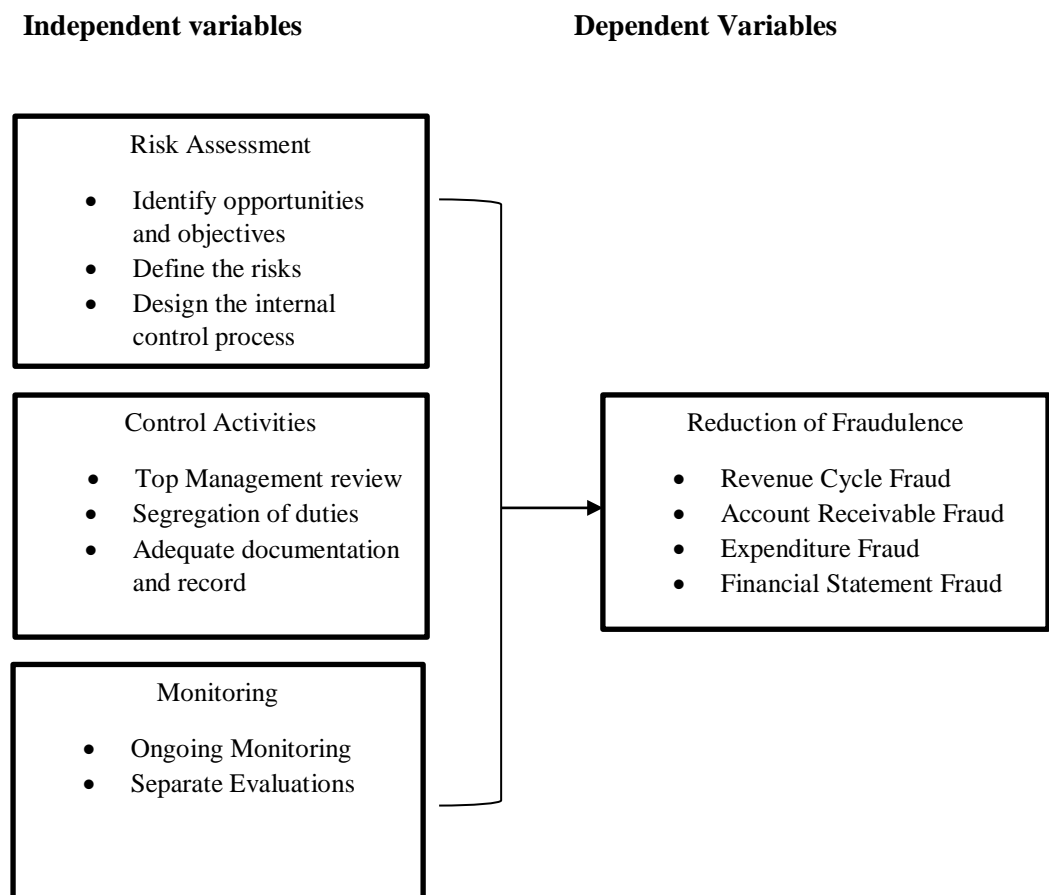


Source: Mohd Danial Afiq Bin Khamar Tazilah, 2015

2.9 Conceptual Framework of the Study

In Figure (2.2), the link between the independent variables and its dependent variables is shown how they are related to each other. This study will mainly focus to study whether these variables are related to each other through analyzing them based on this conceptual framework.

Figure 2.2: Conceptual Framework of the Study



Source: Own Compilation (2019)

This framework shows the hypothesized link of internal control with risk assessment, control activities and monitoring to be effective on reduction of fraudulence in SMEs. From the conceptual framework, risk assessment, control activities and monitoring are the independent variables and reduction of fraudulence is the outcome variable for this study.

Risk assessment management is measured with questionnaires that describe the identification of opportunities and objectives, risk definition, and designation of

internal control processes within the organizations. Management review, segregation of duties to individuals, and adequate data and records are provided as the measurement of control management of this study. Moreover, measurement of monitoring management is acquired from the questionnaires that provide ongoing monitoring and separate evaluations.

Reduction of fraudulence, the dependent variables of this study is classified into four types; revenue cycle fraud, account receivable fraud, expenditure fraud, and financial statement fraud. Therefore, dependent variable of this study is measured with questionnaires that provide all types of these frauds.

CHAPTER 3

BACKGROUND of SMEs in SHWE PYI THAR INDUSTRIAL ZONE

The aim of this chapter is to provide background information and a comprehensive overview of general characteristics of SMEs in Myanmar. This chapter is composed of overview study of SMEs in Myanmar, internal control system, financial support of the government, opportunities and challenges, and benefits of SMEs in Myanmar.

The majority of businesses in Shwe Pyi Thar Industrial Zone are small-sized and started 10 or more years ago. It found that the majority of firms are small (67%) and medium (33%). Among all of them, this study used the 17% of industries, 20 SMEs of the zones that are medium-sized industries because there was some difficulties to collect the data in small-sized industries.

Secondly, business representatives were asked how long their firm had been operating. A clear majority of firms have been operating for more than 10 years and some for 15 years. The survey includes 5 industries of garments, 10 industries of food and beverages, and 5 of consumer goods industries as the respondents of this survey.

3.1 SMEs in Myanmar

SMEs are non-subsidary, independent firms which employ fewer than a given number of employees. According to the OECD (Organization for Economic Cooperation and Development), a micro-enterprise has 1-9 employees, a small one 10-49, and a medium-sized one 50-249. The Myanmar government is making efforts to transform the political, economic and social environment to be in line with global changes, and to promote sustainable economic growth. This includes promoting small and medium-sized enterprises (SMEs), which play a pivotal role in the economic development of both developing and developed countries. In Myanmar, SMEs are considered important to the national economy. They create a lot of job opportunities for the population and contribute to employment and income generation, resource utilization, and promotion of investment. For this reason, the Myanmar government has given special attention to the development of SMEs, support for existing SMEs to become larger industries, and creating a conducive business environment for SMEs.

SMEs play a crucial role in today's economic well-being developed and developing countries alike. Most of all businesses in Myanmar are classified as SMEs and the government has recognized that SMEs are the main point for the country's future national economic development. Until now, the lack of international cooperation and insufficient private sector investments are the main obstacles for Myanmar SMEs. To get better technology, productive and innovation, Myanmar SMEs need to increase access to finance, to enhance the policy and regulatory environment, and promote entrepreneurship and human capital development. However, some Myanmar entrepreneurs who can afford sufficient investment are not very interested to put their capital in SME sectors, as they seemingly do not see immediate profit from this business. Instead, they are more willing to invest in export, import and general trading. As a result, Myanmar has failed to produce value added products, making the lower income for the country, while increasing import volumes has caused the country suffer budget deficits every year.

The Department of Industrial Supervision and Inspection under the Ministry of Industry has categorized into 13 sectors—foodstuff, textile, lodging, house-hold utensils, literature and artistic industry, raw material industry, mineral process and production, agricultural and farming equipment, vehicular manufacturing, electrical equipment production, general industrial workshops. Among them, foodstuff industry has got highest registration.

3.2 Internal Control System in SMEs

Internal control in SMEs is defined as the process of assuring of an organization's objectives in order to operate effectively and efficiently, reliable financial reporting, and compliance with laws, regulations and policies. Everything that controls risks to an organization is internal control system. Internal control system is a critical component of an organization's management and a foundation for its safe and sound operations. Control activities involve performance reviews, information processing, physical controls, segregation of duties, management, routine supervision, sound manpower sourcing and maintenance (Adeniji, 2012; Ndifon and Patrick 2014).

3.3 Financial Support for SMEs

The government provides only non-financial assistance to business enterprises, due to limitations on the government budget. However, the Myanmar Economic Bank (MEB), Myanmar Investment & Commercial Bank (MICB) and Myanmar Industrial Development Bank (MIDB) have been provided to get loans to SMEs since 2004. The state-owned Myanmar Agriculture Development Bank has also provided loans to farmers throughout the country. At the same time, banks are trying to reduce the interest rate. In addition, the Japan International Cooperation Agency (JICA) will provide loan through the government to develop SMEs in 2017 at a low interest rate. The loan is granted through the Myanmar Economic Bank (MEB), and SMEs and businessmen who apply for the loan are required to submit their current business situation and future program of their businesses to the SMEs Development Department. Nevertheless, despite the increasing provision of loans, the lack of financial access and high tax rates still restrict the development of SMEs in Myanmar.

3.4 Opportunities and Challenges of SMEs

SMEs in Myanmar are facing with many challenges. Not only Growing demand but also customers' expectation on product should be taken into account as new challenges. Moreover, foreign competition, lack of developed technologies, and lack of financial power encourage SMEs not to grow. Common challenges in Myanmar include financial access, human resource development, research and development technology, management and marketing.

3.5 Advantages and Disadvantages of SMEs

SMEs have not only advantages but also disadvantages, although it is a main point of the future's economic development of the country. Some of advantages are-

1. **They are closer to their customers:** It is one of the most obvious advantages. SMEs will deal more directly with customers. Therefore, they try to meet their needs more accurately and to offer a more satisfied, individualized service.

2. **They are more flexible:** They have a greater capacity to do change cause of the size and simpler structure. The closer the customers, the more the chance to know the variations in the market before anyone else.
3. **They are able to better detect and take advantage of small market niches:** SMEs have a greater capability to detect and satisfy the needs of its customers than a larger company.
4. **They can make decisions faster:** SMEs can take a decision-making with a person or a small group by having a short period while large companies takes a longer period.
5. **It is easier to link the staff to the company:** In large companies, each employee's work is less comprehensive and more specialized, however, greater proximity to management and a more global vision of the business will make it easier to connect the worker with the company's objectives. This makes employees more motivated, increase the productivity and achieve the goals of the business.
6. **Everyone knows each other:** One of the strengths of SMEs is it makes easy to form bonds and know the qualities of others. These facts increase performance and improve teamwork.
7. **Communication will be easier:** The closer the relationship, the easier to communicate between the different members of the business. This will enhance new ideas that can solve the problems as a team.

The disadvantages of SMEs are-

1. **They have more difficulties to find funding:** Normally, SMEs do have the financial power as much as large companies. Therefore, it usually needs external financing that will also be more limited and in worse conditions, without the ability to access financial instruments available to large corporations, such as listing on stock markets, capital increases, etc.
2. **It may be difficult to reach a large number of customers and earn their trust:** An SME has the difficulties to reach its customers. Large companies that can able to assist financial power use advertising by mass media to get the reaching task of its customers, however, for small and medium enterprises, it takes many years of efforts to reach it. In addition, it is more

difficult than competitive companies to convey to their customers the security that the larger companies, the competitors can offer them.

3. **The costs are higher:** SMEs will have enormous impediments to benefit from the economy of scale, which will cause costs to be higher in certain types of business, as well as creating difficulties to adjust the prices offered to users.
4. **It is not easy to endure prolonged periods of crisis:** If SME faces with the long periods of crisis, the lack of financial capacity can cause the major problems for it although it is more flexible in dealing with changes. During economic depressions, SMEs can have enormous difficulties to survive, and it can even face the bankruptcy.
5. **Low bargaining power with suppliers and customers:** SMEs have the low chance to achieve beneficial conditions, while large companies negotiate with customers and suppliers to get a position of power.
6. **Access to less skilled personnel:** When an SME offer to develop a career, there will be fewer possibilities of advancement. It will be more difficult to attract talented and well-prepared workers who will be more tempted to develop their skills in a large enterprise. This does not mean that SMEs cannot attract the talent, but will have to offer other incentives.
7. **They will have more difficulty in accessing technology:** SMEs can have the difficulties to adapt to technological changes that could lead obsolescence because of the lack of financial power. However, there are other interesting technological solutions that SMEs can access.

CHAPTER 4

RESEARCH METHODOLOGY

In this chapter, the analysis on internal control of SMEs to reduce fraud in Shwe Pyi Thar Industrial Zone are described in details. This study is composed with sub-headings as follows. Firstly, the research design is introduced. Second, the demographic information of the survey respondents is also provided. And then, to analyze internal control, the analysis made on the businesses' risk assessment, control activities, and monitoring activities. The final part is regression analysis for the aim of estimating the relationship between internal control activities and reduction of fraud in SMEs.

4.1 Research Design

This study is to reduce fraud in some of SMEs in Shwe Pyi Thar Industrial Zone. The main objectives of this study are to identify internal control system in SMEs and to examine internal control system affect on the reduction of fraudulence of SMEs. To support the assessment, the required data were collected through sample survey with detective approach. The survey mainly uses descriptive analysis.

A descriptive analysis is undertaken in order to ascertain and be able to describe the characteristics of the components of internal control toward fraud reduction among SMEs in Shwe Pyi Thar Industrial Zone. The data gathered from each respondent and treating each individual's response as an individual data source. For this research to be designed, questionnaires surveys are used to collect the data. The questionnaires are constructed with 5-point likert scales ranging from 1 (Strongly Disagree), 2 (Disagree), 3 (Neutral), 4 (Agree) and 5 (Strongly Agree) to determine individuals' satisfaction on each statement. The simple random sampling method (SRS) method is used in this study. The data is randomly collected from 120 executives who are responsible for the businesses. In this study, reduction of fraud are examined by using three internal control components. The three internal control components are risk assessment, control activities and monitoring. All respondents kindly responded to the questionnaires. After collecting the required data, the data were analyzed by using SPSS (the statistical package for social science) software.

4.2 Demographic Information

This section presents the findings of the study in line with the general characteristics of the respondents such as gender representation, age, education levels, duration of employment, salary levels of the respondents and working sector in businesses.

4.2.1 Gender of Respondents

The gender of the executives of the business is one of the factors that can influence the adoption and extent of implementation of internal control components. The first question enquired about the gender of the respondents and the outcome appears in Table 4.1 below.

Table 4.1: Gender of Respondents

Gender	Number of respondents	Percent
Male	42	35
Female	78	65
Total	120	100.0

Source: Survey data (2019)

From Table 4.1, 35% of the respondents were males while 65% were females. Among the respondents, females are 78 persons and 42 are males. The next section focuses on age of the respondents.

4.2.2 Age of Respondents

The level of age is classified into 5 groups.

Table 4.2: Level of Age

Years	Number of respondents	Percent
Under 25	48	40
25-34	48	40
35-44	15	12.5
45-54	-	-
Over 54	9	7.5
Total	120	100

Source: Survey data (2019)

According to Table (4.2), 40% of respondents are under 25 and between 25 and 34 years. And then, 12.5% of respondents are between 34 and 44 years and over 54 years.

4.2.3 Education Levels

The education levels of the executives of internal control system can influence the quality and nature of decisions they make for the firms. The respondents were requested to provide their levels of education. The outcome appears in Table 4.3 below.

Table 4.3: Education Levels

Education Background	Number of Respondents	Percent
Bachelor Degree	60	50
Master Degree	3	2.5
Any Others	57	47.5
Total	120	100.0

Source: Survey data (2019)

Table 4.3 reveals that 50% of the respondents are degree holders, while 2.5% are master degree holders and 47.5% are any other. The level of education and training affects the mindsets of the managers particularly when it comes to the quality of internal control related decisions.

4.2.4 Working Experience of Respondents

When the selected employees are asked about years of experience in their job, results are shown in the following Table 4.4. In this survey, the working experience of employees is divided into five groups; Under 1 year, 1-3 years, 4-6 years, and 6 years above.

From Table 4.4 above, 35% of those have worked between 1-3 years, therefore, this indicates that the respondents are familiar with the operations of the firm. 30% of the respondents have participated in this work for 4-6 years, by analyzing that, the businesses can attract the employees for a long time. Moreover, respondents that have less than 1 year experience occupied the second large percent of

respondents, having 30%. Only 5% of the respondents have worked for their companies more than 6 years.

Table 4.4 Respondent’s Working Experience

Experience	Number of Respondents	Percentage (%)
< 1 year	36	30
1-3 years	42	35
4-6 years	36	30
> 6 years	6	5
Total	120	100

Source: Survey data (2019)

4.2.5 Income Levels

All of the respondents were requested to participant in answering their income which is divided into four groups. These monthly income levels are described in Table (4.5).

Table 4.5 Respondent’s Monthly Income

Salary	Number of Respondents	Percentage (%)
≤ 300,000 MMK	72	60
300001-500000 MMK	39	32.5
500001-700000 MMK	3	2.5
700001 MMK and above	6	5
Total	120	100

Source: Survey data (2019)

According to the figure, respondent’s monthly income is classified as less than or equal 300,000 MMK, 300001-500000 MMK, 500001-700000 MMK, and 700000 MMK and above. 60% of respondents whose monthly income ranges less than or equal to 300,000 MMK. 32.5% of those ranges between 300,001 and 500,000 MMK and only 5% of all ranges above 700,000 MMK. And then, Between 500,001 and

700,000 MMK of monthly income are only 2.5%. Most of respondents are group of less than or equal to 300,000 MMK since all of the sample business are SMEs.

4.2.6 Department of Respondents

The department of respondents are grouped into four; namely Account and Internal audit, Human Resource, Sale and Marketing and Others. The results are shown in Table (4.6) and Figure (4.6).

Table 4.6 Department Sector of Respondents

Department	Number of Respondents	Percentage (%)
Accounting and Internal Audit	44	36.7
Human Resource	15	12.5
Sale and Marketing	12	10
Other Departments	49	40.8
Total	120	100

Source: Survey data, 2019

Most percentage of results are filled with Other Departments, having 40.8%. And then, the second large one is Accounting and Internal Audit Department with 36.7%. HR department composed with 12.5% of respondents and 10% of Sale and Marketing department.

4.3 Cronbach's Alpha Reliability Test

Reliability refers to the degree to which measures are free random error and therefore yield consistent results (Chfasoa). Whenever a scale consists of more than one item, it is important to measure how much they are internally consistent. Internal consistency measures the consistency of the answers of the question from the questionnaire and one of the most used method to calculate the internal consistency is Cronbach's Alpha (Saunders et al, 2012). Cronbach's Alpha is a measure used to assess the reliability, or internal consistency, of a set of scale or test

items (library. Virginia). A commonly-accepted rule of thumb is that an α of 0.6-0.7 indicates acceptable reliability, and 0.8 or higher indicates good reliability.

Table (4.7) Reliability Test from Respondent Responses on scale Items

Internal Control System	No. of Items	Cronbach's Alpha
Risk Assessment	10	0.678
Control Activities	10	0.733
Monitoring	10	0.772

Source: Survey results (2019)

According to table (4.7), Alpha value for monitoring is the highest among factors at 0.772 which is higher than acceptable score of 0.7. Risk assessment is at .678 and control activities is at .733. In social science, the acceptable α value is 0.60(Ghazali, 2008), which is also practiced by other researchers. Therefore, internal consistency of items to the concepts is excellent.

4.4 Analyzing the Internal Control System

With the purpose of analyzing the internal control system (risk assessment, control activities and monitoring) that are mainly affected the reduction of fraud are studied in this section. In this section, 40 pair of questions are measured for reduction of fraud. Each statement is measured on five-point Likert scale (1: strongly disagree, 2: disagree, 3: neutral, 4: agree and 5: strongly agree). Therefore, the minimum, the middle and the maximum value of mean scores is 1, 3 and 5. If the mean value is less than 3, it indicates that the internal control system cannot influence on reduction of fraudulence in SMEs. In contrast, if the mean value is greater than 3, the internal control system can influence on reduction of fraudulence in SMEs.

4.4.1 Risk Assessment Activities that Reduce Frauds

This study sought to establish the extent to which risk assessment activities was taken from the businesses in SPT Industrial Zone by using a five point likert scale, such as 1=strongly disagree, 2= disagree, 3= neutral, 4= agree and 5 = strongly agree. The results are presented on the Table 4.8 below.

Table 4.8 Risk Assessment Activities that reduce fraud

No.	Risk Assessment	Mean	Standard Deviation
	Identification of opportunities and objectives		
1	The company has its objectives.	3.93	0.688
2	The department has the time, tools and resources to effectively accomplish its mission and objectives.	3.75	0.625
	Define the Risk		
3	The company has formal and regularly scheduled procedures to perform fraud risk assessments.	3.82	0.631
4	Appropriate personal are involved in the fraud risk assessment.	3.42	0.706
5	Risk assessments are performed at all appropriate levels of the organization (e.g. the entity of the level, significant locations or business units, significant account balance or major process level)	3.75	0.833
6	Risk assessment considers the risk of management's override of control.	3.65	0.795
	Design the internal control		
7	The department has saved professional capacities of each employee in personnel records of the company.	3.70	0.717
8	Risk assessment includes consideration of internal and external risk factors, including pressures or incentives, rationalizations or attitudes, and opportunities.	3.72	0.635
9	Risk assessments are updated periodically to include considerations of changes in operations.	3.80	0.751
10	The existence of risks and management's recognition of your company is appropriately communicated to employees.	3.62	0.623
	Average	3.716	0.7004

Source: Survey data (2019)

From the results in Table 4.8, the most used risk assessment activities of internal control system include: department's objectives (mean score=3.93, standard deviation=0.688); adequate resources (mean score=3.75, standard deviation=0.625); formal scheduled procedures (mean score=3.82, standard deviation=0.631); appropriate personal in risk assessment (mean score=3.42, standard deviation=0.706); risk assessment in appropriate level (mean score=3.75, standard deviation=0.833);

risk of management's override control (mean score=3.65, standard deviation=0.795); employees' capacities (mean score=3.70, standard deviation=0.717); external and internal risk factors (mean score=3.72, standard deviation=0.635); periodically updating of risk assessment (mean score=3.80, standard deviation=0.751); management's recognition and employees (mean=0.62, standard deviation=0.623).

It is evident that the businesses have largely used the risk assessment however departments' objectives is moderately used (mean score=3.93, standard deviation=0.688). This shows that respondents agreed that the departmental objectives is important to reduce the organizational fraud.

The overall mean score was 3.716 which imply that the business has adopted risk assessment activities. The results indicated that risk assessment activities are practiced by the businesses of SPT industrial zone to a large extent.

4.4.2 Control Activities that Reduce Frauds

The study sought to establish the extent to which control activities was used by the businesses of SPT Industrial Zone using a five point likert scale, where; 1=strongly disagree, 2= disagree, 3= neutral, 4= agree and 5 = strongly agree. The results are presented on the table 4.6 below.

According to the table 4.9 above, comparison of data in report and real outcomes (mean score=3.80, standard deviation=0.751); monthly reconciliation or review of financial statement (mean score=3.67, standard deviation=0.610); segregation of duties (mean score=3.88, standard deviation=0.751); organizational chart (mean score=3.65, standard deviation=0.617); determination of relevant business process (mean score=3.57, standard deviation=0.589); backup of data (mean score=3.68, standard deviation=0.758); valuables secured accounting records (mean score=3.83, standard deviation=0.631); backup of procedures (mean score=3.73, standard deviation=0.777); document retention plan (mean score=3.85, standard deviation=0.795); documented policies and procedures for operational process (mean score=3.70, standard deviation=0.603).

In table (4.9), it is evident that the businesses have largely used the control activities, however segregation of duties is moderately used (mean score=3.88, standard deviation=0.751). This shows that respondents agreed that segregation of

duties for each employee is important to standardize the operational process and reduce the chance of frauds.

The overall mean score is 3.736 and implied that the businesses has used control activities. The results above indicate that the businesses of SPT Industrial Zone practices the control activities to a large extent.

Table 4.9 Control Activities that Reduce Fraud

No.	Control Activities	Mean	Standard Deviation
	Top Level Review		
1	Your company compares between data in reports and real outcomes.	3.80	0.751
2	The department performs a monthly reconciliation/review of its financial statements.	3.67	0.610
	Segregation of Duties		
3	There is segregation of duties in that different individuals are responsible for.	3.88	0.751
4	There is an organization chart which sets forth the actual lines of responsibility.	3.65	0.617
5	Management determines which relevant business processes require control activities.	3.57	0.589
	Adequate documentation and records		
6	Backup of operation systems, critical data, and key software programs are made on a regular basis and stored at an off-site location.	3.68	0.758
7	Accounting records and valuables secured are in limited access area.	3.83	0.631
8	The department has backup procedures for key processes.	3.73	0.777
9	The department has document retention plan.	3.85	0.795
10	The department has documented policies and procedures for its primary operational process.	3.70	0.603
	Average	3.736	0.6882

Source: Survey data (2019)

4.4.3 Monitoring Activities to Reduce Fraud

The study sought to establish the extent to which monitoring activities was used by the businesses, taking a five point likert scale, where; 1=strongly disagree, 2= disagree, 3= neutral, 4= agree and 5 = strongly agree. The results are presented on the table 4.9 below.

Table 4.10 Monitoring Activities to Reduce Fraud

No	Monitoring Activities	Mean	Standard Deviation
	Ongoing Monitoring		
1	Management monitors relevant external and internal information and considers the impact on the control structure.	3.70	0.717
2	Procedures are in place to monitor when controls are overridden and to determine if the override was appropriate.	3.68	0.521
3	Management takes appropriate action on exception to policies and procedures.	3.65	0.694
4	Management responds timely to comments identified in management letters from the external auditor.	3.65	0.729
5	Internal audit has the authority to review any aspects of the entity's operations.	3.80	0.717
6	Management is required to respond in a timely manner to the internal audit department's findings and recommendation.	3.60	0.666
7	Control are reviewed to ensure that they are being applied as expected.	3.65	0.617
	Separate Evaluations		
8	Personnel with the requisite skills conduct evaluations of appropriate portions of the internal control system.	3.63	0.734
9	The frequency and scope of supervision and monitoring activities are appropriate to the size and nature of the entity.	3.65	0.657
10	Supervisory personnel perform various random and structured reviews over the functioning of control procedures.	3.55	0.743
Average		3.656	0.6795

Source: Survey data (2019)

According to the table 4.10 above, relevant internal & external information (mean score=3.70, standard deviation=0.717); procedure are in place (mean score=3.68, standard deviation=0.521); appropriate action on exception to policies and procedures (mean score=3.65, standard deviation=0.694); respond timely to comments (mean score=3.65, standard deviation=0.729); authority of internal audit (mean score=3.80, standard deviation=0.717); timely respond of management (mean score=3.60, standard deviation=0.666); review of control (mean score=3.65, standard deviation=0.617); conduction with personal requisite skills(mean score=3.63, standard deviation=0.734); and the last, goal achievement periodically (mean score=3.55, standard deviation=0.743).

One of all that influence the businesses' activities to reduce fraud is monitoring relevant external and internal information and impacting the control structure, having (mean score=3.70, standard deviation=0.717). It is evident that the businesses' management used monitoring activities to control the fraud within the business. This shows that respondents agreed that monitoring activities are needed to make the controlling in order to reduce fraud in the business. The average mean score is 3.656 and implied that the businesses of SPT Industrial Zone has taken the monitoring activities to reduce the fraud.

4.4.4 Reduction of Fraudulence

The study sought to establish the extent to which reduction of fraudulence by the businesses of Shwe Pyi Thar Industrial Zone using a five point likert scale, where; 1=strongly disagree, 2= disagree, 3= neutral, 4= agree and 5 = strongly agree. The results are presented on the Table 4.10.

According to Table 4.10, the results from the question of reduction of fraudulence in SMEs obtained the largest mean score of 3.75, and then has encountered higher the standard mean score 3. Therefore, respondents agreed that internal control system influenced the reduction of fraudulence in SMEs.

Table 4.11 Reduction of Fraudulence

No	Reduction of Fraudulence	Mean	Standard Deviation
	Revenue Cycle Fraud		
1	Employees are engaged in sales, handling cash and managing receivables competent for their assigned tasks, adequately trained and supervised.	3.55	0.633
2	Management regularly reviews gross profits ratios.	3.10	0.999
3	Customers are informed that they obtain receipts for every sales.	3.48	0.809
4	Customer orders are handled efficiently and accurately.	3.50	0.926
	Account Receivables Fraud		
5	Credit and collection and write off policies and procedures are current and in writing.	3.53	0.673
6	The responsibilities for maintaining detailed accounts receivable records segregated from collections, disbursement, and general ledger posting functions.	3.73	0.744
7	Adequate procedures exist for follow-up and collection of delinquent accounts.	3.75	0.664
	Expenditure Fraud		
8	Departmental funds are used only of purchases of goods or services that support the department's mission.	3.60	0.703
9	All purchases are made only on the basis of requisitions signed by authorized individuals.	3.52	0.744
	Financial Statement Fraud		
10	The organization implements checks and balances at the process level to prevent, deter, and detect each of the significant fraud risks identified in its risk assessment.	3.65	0.617
Average		3.541	0.7512

Source: Survey data (2019)

Table 4.12 Coefficient of determination

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Est
	0.664	0.440	0.426	.23990

Source: Survey data (2019)

The R^2 value indicates that the three independent variables explain 44.0% of the variance in internal control on reduction of fraudulence in SMEs. It is clear that internal control system contributed to the reduction of fraudulence in SMEs.

Table 4.13 Analysis of ANOVA Variance Table

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	5.252	3	1.751	30.417	0.000
	Residual	6.676	116	.058		
	Total	11.928	119			

Source: Survey data (2019)

The study used ANOVA to establish the significance of the regression model from which an F significance value of $P < 0.01$. This indicates that regression model has a less than 0.01 probability of giving wrong prediction. It can be concluded that regression model statistically significant, hence suitable for explaining how internal control affect the reduction of fraudulence in SMEs.

4.5 Multiple Regression Model of Internal Control on Reduction of Fraudulence in SMEs

T test and F test are performed in regression models. T test is used to find out if the means between two populations is significantly different. F test is used to find out if the variances between two populations are significantly different. The testing results are as follow.

Table 4.14 Summary Result Data

	Unstandardized Coefficients β	Coefficients Std. Error	Standardized Coefficients β	t	Sig.
(Constant)	1.142	0.279		4.090	.000
Risk Assessment	0.126	0.084	0.128	1.505	.135
Control Activities	0.417**	0.083	0.494	5.044	.000
Monitoring	0.102	0.073	0.126	1.399	.164

Source: Survey results, 2019

(** indicates 1% significant level.)

The result of multiple regression analysis from Table 4.12 illustrates that when internal control system; risk assessment, control activities and monitoring are held at constant, the value of the business's reduction of fraud would be 1.142. Holding other factor constant, a unit increase in risk assessment would lead to 0.126, increase in business's reduction of fraud, a unit increase in control activities would lead to 0.417 increase in business's reduction of fraud, a unit increase in monitoring would lead to 0.102 increase in business's reduction of fraud. The value of p is 0.000 at the 95% significance level.

According to the results, control activities is the most influencing factor on reduction of fraudulence in SMEs. Subsequently, risk assessment is the second influencing factor and followed by monitoring.

CHAPTER 5

CONCLUSIONS

This chapter consists of findings and discussion, recommendations, suggestion for further research study, and conclusion. One of the fundamental tasks in this chapter is to ascertain that the survey questionnaires of the study were addressed and that the objectives were met.

Internal control is one of the most important topics in organization today, especially in SMEs, because of new challenges faced by organizations today, which is reflected in the constant search for new ways to reduce the frauds by taking risk assessment, control activities, and monitoring management.

Through the study, the data have collected and analyzed as following. The control activities have the main role in reducing the frauds, such as revenue cycle fraud, receivable fraud, expenditure fraud, and financial statement fraud, of small and medium enterprises.

The results of questionnaires indicate some conclusions related to correlations as follows. There is a significant correlation of reduction of fraudulence in SMEs related to internal control management. The results indicate that SMEs of SPT Industrial Zone generate the efficient internal control system by using components of internal control system- Risk Assessment, Control Activities, and Monitoring Activities.

The purpose of this study is to realize how internal control system effects on reduction of fraudulence in SMEs. The objectives in this study are to identify internal control system and to examine internal control system affect on reduction of fraudulence in SMEs. This chapter presents the summary of findings for the objectives mentioned above, conclusion, recommendations made based on findings and suggestions on the areas that need to be explored in the further study.

5.1 Findings and Discussions

This study aimed at to examine the internal control and reduction of fraudulence in SMEs of Shwe Pyi Thar Industrial Zone. This analysis is focused on internal control system of SMEs in order to identify the internal control system in SMEs and to examine internal control system affect on reduction of fraudulence in

SMEs. The survey questionnaires were collected from 120 respondents of employees in some of Shwe Pyi Thar Industrial Zone. The method of this study is mainly based on "Regression Analysis Method" and Pearson's coefficient of correlation is used to analyze the relationship of internal control and reduction of fraudulence in SMEs.

According to the demographic characteristics, the study found that the female respondents are more than males. And then, respondents that enter into workplace are the most under 25 years and between 25 and 34 years old. However, most of the industries do not require the education, and they try to promote the respondents based on their working experience, therefore, most of the respondents are under graduated. Moreover, as most of respondents are under graduated, the industries need to pay them the lower labor costs. Therefore, they can have the increase in profit. And, the government also get the tax more. So, the nation can achieve the development in economy.

According to the analyzed data of internal control system, some SMEs of Shwe Pyi Thar Industrial Zone have adopted internal control management. Moreover, at first, it indicates that control management is practiced by these industries to a large extent. The study noted that these industries have implemented risk assessment management as second. For the last, it practices the monitoring management to a large extent and they have a goal to reduce frauds in the organization.

The study concluded internal control processes have a significant positive direct impact on reducing fraud in SMEs. Moreover, the result of the data shows that the segregation of duties is essential for control activities of the organizations. This paper highlights the weaknesses of supervision and monitoring of the organization's management.

5.2 Recommendation of the Study

The study concluded internal control processes have a significant positive direct impact on reducing fraud in SMEs. Although all components of internal control are applicable to the organizations, especially large companies, small and medium enterprises can meet with the difficulties as compared to large organizations. In this situation, the controls may be relatively simple, less formal and less structured, yet a small company can still affordable to have an effective internal control system in their company.

If the control environment, one of the components of internal control, is an important element for the top management of the company, it need to participate in the general meeting to know about the current situation of the company. Nevertheless, it may not like that for small business because of management of owner or only few persons. Small companies can be ruled by a single owner who is intimately involved in business operations, therefore in this circumstance, the owner is in a position to know what to expected in the financial reports and to follow up on any significant deviations from expectations.

While for control activities, from the result of the research, it shows that segregation of duties is an important element of internal control. But in reality, small companies with limited employees often face the difficulty in fully establishing a proper separation of duties. A sales transaction in large company may involve few departments for sales, credit, inventory, shipping, billing and cash receipt while a small company may only get through one or two person's hand because of the limitation of employees available. For this to be solved it is recommended the manager or the owner carefully review the reports, have detailed transactions and supporting documents, and periodically do some inventory checking. Besides, the manager or the owner should ensure that the employee who is in charge of collecting the cash or cheques is having no financial problem and their personality in working should be evaluated yearly. Since it is difficult for the small company to have strong segregation of duty and the system to use for limiting the employee's access to information of the company may seem no cost efficiency, to overcome these weaknesses, the small companies should enhance and focus more on their monitoring system to ensure the unwanted activities in the company are eliminated. Furthermore, as discussed in the research, small companies may not be affordable in having departments such as IT department and internal auditor department. It is recommended for the small companies to outsource these departments as it will be cheaper and those outsourcing companies have more experience in either developing and maintaining the accounting system or auditing and set up an effective internal control system for the company.

5.3 Need for Further Study

As this research is mainly focused on the respondents in SMEs of Shwe Pyi Thar Industrial Zone, future research can be done by having respondents from other places or states within Myanmar. Besides, the respondents from different geographical location and background may have different perceptions toward the internal control system which can be reflected on the findings. In order to obtain more accurate data, it is better to include respondents from the whole country if time, cost and other factors are allowed. Additionally, the data of the future research may use other method such as interview to obtain a better result as the respondents will be more understanding on the subject studied and the answers provided will be more competent and reliable.

Furthermore, for the other future study to be carry on, the researchers can improve the questionnaire of this research so that it can be analyzed by using the analytical software SPSS. Moreover, the future study can be more in depth, which they can identify the types of fraud in real life that can be reduced by the internal control system and ways for the company to have a better internal control system. The future researchers can critically analyze how's the current internal control of a company, and try to evaluate the internal control system of the company then come out with a better internal control system which suit the current situation of the company. And then, the future research such as comparing the internal control system in different business sectors can be done too.

5.4 Conclusion

This research is being conducted to examine the internal control system affect on reduction of fraudulence in SMEs. In addition, this research also evaluates the ability of the SMEs of having internal control system as well as internal auditor department in their company. This research found that the component of internal control which are risk assessment, control activities, and monitoring need to work together in order to achieve an effective and strong internal control system. Nevertheless, the result of the research shows that the SMEs should be able to maintain such basic internal control system in their company especially in controlling their activities through an independent unit such as segregation of duties. Internal control can help an entity achieve its performance and profitability objectives, and

prevent loss of resources. It can help in ensuring the reliability of financial reporting. And it can help to make sure that the enterprise complies with government laws and regulations, avoiding damage to its reputation and other consequences.

REFERENCES

- [1] Arie Kapteyn , Saw Htay Wah. 2017, “Challenges to Small and Medium-size Businesses in Myanmar: What are they and how do we know?”
Journal Article Published on 24 April 2017
- [2] Dr.Balbir B.Bhasin, "*Development of SMEs in Myanmar In the Globalization Era*", University of Arkansas, USA, Sivakumar Venkataramany University, USA
- [3] Hla Theingi, "*Opportunities, challenges and preparations: Myanmar and Asean Economic Community*", Department of International Business Management, Assumption University, Bangkok, Thailand
- [4] *Journal*. 2017-18, “Internal Control Questionnaire and Assessment”
Bureau of Financial Monitoring and Accountability Florida Department of Economic Opportunity
- [5] *Journal*. 2017. “Myanmar Government Prioritizes the Development of SMEs”.
- [6] *Journal*. “SMEs in Myanmar”
- [7] *Journal*. 2019, “SMEs are integral to the economic growth of Myanmar” Global New Light of Myanmar
- [8] Mohd Danial Afiq Bin Khamar Tazilaha , Norhusnaida Binti Che Hussainb. 2015, “*The Importance of Internal Control in SMEs: Fraud Prevention & Detection*” international Conference on Business, Accounting, Finance, and Economics (BAFE 2015) Universiti Tunku Abdul Rahman, Kampar, Perak, Malaysia, 9th October 2015
- [9] Miriam Amine (DEval) Prof. Dr. Reinhard Stockmann (CEval), "*Small and Medium Enterprises Survey in Myanmar 2015*"

- [10] Nertila ÇIKA, 2018. *“Development of Internal Controls in Small and Medium Enterprises - Case of Albania”* University of Tirana, Faculty of Economics Rruga e Elbasanit, Tirana, Albania
- [11] Rony Aaron Kagande, 2016. *“Internal control processes and risk reduction in Harare's retail SMEs”* A Dissertation submitted in Partial Fulfilment of the Requirements for the Master Degree in Business Administration 2016 Graduate School of Management University of Zimbabwe SUPERVISOR: DR W. MKUMBUZI
- [12] Rozmita Dewi Yuniarti1. 2017, *“The effect of internal control and anti-fraud awareness on fraud prevention (A survey on inter-governmental organizations)”* Indonesia University of Education, Setiabudhi Street 299, Bandung, 40154, West Java, Indonesia
- [13] Saw Htay Wah, 2015. *“Challenges to Small and Medium-size Businesses in Myanmar: What are they and how do we know?”* Center for Economic and Social Research University of Southern California
- [14] Tran Loan, 2015. *“Internal control system for small business to reduce risk of fraud”* Case study: Company D, Vietnam

Appendix

Questionnaires

Dear respondent,

This thesis paper is intended to explore “Internal control on reduction of fraudulence in SMEs”. The respondents’ identity will keep anonymous and confidential. Your answer is very important for us to conduct this research successfully.

Thank you for your precious time and participation in this survey.

1. Gender Male Female

2. Age
- Under 25
 - 25-34
 - 35-44
 - 45-54
 - Over 54

3. Education Level (Name of Degree)

Bachelor	_____
Master	_____
Doctor	_____
Any others	_____

4. How many years have you been working in your company?

- <1 year
- 1-3 year
- 4-6 year
- > 6 year

5. How much your Personal Monthly Income/ Allowance?

- Less than or equal MMK 300,000
- MMK 300,001 to MMK 500,000
- MMK 500,001 to MMK 700,000
- MMK 700,001 and above

6. Which sector do you work in?

- Account & Internal Audit Department
- HR Department
- Sale & Marketing Department
- Others

INSTRUCTION: Listed below are the measurement items about.

Risk Assessment Management

No.	Risk Assessment	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Identification of opportunities and objectives					
1	The company has its objectives.					
2	The department has the time, tools and resources to effectively accomplish its mission and objectives.					
	Define the Risk					
3	The company have formal and regularly scheduled procedures to perform fraud risk assessments.					
4	Appropriate personal are involved in the fraud risk assessment.					
5	Risk assessments are performed at all appropriate levels of the organization (e.g. the entity of the level, significant locations or business units, significant account balance or major process level)					
6	Risk assessment considers the risk of management's override of control.					
	Design the internal control					
7	The department has saved professional capacities of each employee in personnel records of the company.					
8	Risk assessment includes consideration of internal and external risk factors, including pressures or incentives, rationalizations or attitudes, and opportunities.					
9	Risk assessments are updated periodically to include considerations of changes in operations.					
10	The existence of risks and management's recognition of your company is appropriately communicated to employees.					

Control Management

No.	Control Activities	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Top Level Review					
1	Your company compare between data in reports and real outcomes.					
2	The department performs a monthly reconciliation/review of its financial statements.					
	Segregation of Duties					
3	There is segregation of duties in that different individuals are responsible for.					
4	There is an organization chart which sets forth the actual lines of responsibility.					
5	Management determines which relevant business processes require control activities.					
	Adequate documentation and records					
6	Backup of operation systems, critical data, and key software programs are made on a regular basis and stored at an off-site location.					
7	Accounting records and valuables secured are in limited access area.					
8	The department has backup procedures for key processes.					
9	The department has document retention plan.					
10	The department has documented policies and procedures for its primary operational process.					

Monitoring Management

No.	Monitoring	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Ongoing Monitoring					
1	Management monitors relevant external and internal information and considers the impact on the control structure.					
2	Procedures are in place to monitor when controls are overridden and to determine if the override was appropriate.					
3	Management takes appropriate action on exception to policies and procedures.					
4	Management responds timely to comments identified in management letters from the external auditor.					
5	Internal audit has the authority to review any aspects of the entity's operations.					
6	Management is required to respond in a timely manner to the internal audit department's findings and recommendation.					
7	Control are reviewed to ensure that they are being applied as expected.					
	Separate Evaluations					
8	Personnel with the requisite skills conduct evaluations of appropriate portions of the internal control system.					
9	The frequency and scope of supervision and monitoring activities are appropriate to the size and nature of the entity.					
10	Supervisory personnel perform various random and structured reviews over the functioning of control procedures.					

Reduction of Fraudulence

No.	Reduction of Fraudulence	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Revenue Cycle Fraud					
1	Employees are engaged in sales, handling cash and managing receivables competent for their assigned tasks, adequately trained and supervised.					
2	Management regularly reviews gross profits ratios.					
3	Customers are informed that they obtain receipts for every sales.					
4	Customer orders are handled efficiently and accurately.					
	Account Receivables Fraud					
5	Credit and collection and write off policies and procedures are current and in writing.					
6	The responsibilities for maintaining detailed accounts receivable records segregated from collections, disbursement, and general ledger posting functions.					
7	Adequate procedures exist for follow-up and collection of delinquent accounts.					
	Expenditure Fraud					
8	Departmental funds are used only of purchases of goods or services that support the department's mission.					
9	All purchases are made only on the basis of requisitions signed by authorized individuals.					
	Financial Statement Fraud					
10	The organization implements checks and balances at the process level to prevent, deter, and detect each of the significant fraud risks identified in its risk assessment.					